BY ORDER OF THE SECRETARY OF THE
AIR FORCE

AIR FORCE INSTRUCTION 65-201

1 MAY 1997

Financial Management

MANAGEMENT CONTROL

COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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Supersedes AFI 65-201, 1 July 1994.

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Pages: 18
Distribution: F

This instruction implements AFPD 65-2, *Management Control Program*. It provides a structure to establish, evaluate, and report on Air Force management controls (MC) in all functional areas.

SUMMARY OF REVISIONS

This revision incorporates revised guidance from DoDD 5010.38, *Management Control Program*, August 26, 1996 and DoDI 5010.40, *Management Control Program Procedures*, August 28, 1996. It re-titles the instruction "Management Control"; directs the MC program be integrated into daily operating and management practices and utilize existing organizationally required evaluation processes (paragraph **2.1.** and paragraph **2.4.4.**); eliminates the requirement for vulnerability assessments (paragraph **2.1.**) changes the schedule of management control evaluation activities from a 5-Year Plan to a requirement that managers will continuously monitor their vital management controls (paragraph **2.4.1.**); and requires classifying management controls as "vital" or "non-vital" for determining the necessity for reviews and material weakness reporting (paragraphs **2.2.1.**, **2.4.2.**, **3.4.1.**); and obsoletes AF Form 3523, **Vulnerability Assessment (Internal Management Control Program)**. A | indicates revisions from the previous edition.

Chapter 1

GOALS AND RESPONSIBILITIES

1.1. Introduction. To meet Federal Managers' Financial Integrity Act (FMFIA) requirements, all government agencies must establish, evaluate and report on management controls, and submit an annual Statement of Assurance to the President and the Congress.

    1.1.1. Managers must:

- Apply controls to all administrative, operational and programmatic functions as well as accounting and financial management.
- Ensure that management control costs don't exceed the expected benefits.

    1.1.2. Use the annual Statement of Assurance to report:

- Compliance with the Act.
- Operational and programmatic management control system material problems.
- Plans for taking corrective action.
- If the agency's accounting system meets Comptroller General requirements.

1.2. Objectives. Management control systems should provide reasonable assurance that:

- Obligations and costs comply with applicable law.
- Air Force people safeguard all assets against waste, loss, unauthorized use, and misappropriation.
- Personnel properly record and account for money used to operate the agency so that they can prepare reliable financial and statistical reports.
- Program and administrative functions follow applicable laws and administrative policy.

1.3. Senior Responsible Official. The Assistant Secretary, Financial Management and Comptroller (SAF/FM), is the Management Control Senior Responsible Official for ensuring that the evaluation of, improvement of, and reporting on the Air Force management control system meets the requirements of the FMFIA, Office of Management and Budget (OMB) and Department of Defense (DoD) regulations.

1.4. Director of Management Control. The Director of the MC program (SAF/FMPI):

- Provides policy for the Management Control Program.
- Issues guidance for compliance and reporting requirements.
- Provides technical advice, training, and program direction.
- Directs quality assurance reviews.
- Manages the program through an extensive network of focal points (program offices of primary responsibility (OPR)) appointed by each primary reporting organization.
- Receives and processes primary reporting organizations' inputs and prepares overall Air Force reports.
- Initiates coordination action for the Annual Statement of Assurance by the Secretary of the Air Force.

- Responds to inquiries from DoD, OMB, General Accounting Office (GAO) and the Congress.

1.5. Secretariat, Air Staff, MAJCOM, DRU Responsibilities:

1.5.1. Secretariat and Air Staff Offices, MAJCOMs, and DRUs are primary reporting elements of the Air Force MC program. The heads of these organizations are the management control officials who carry out the MC program within their organizations.   Specifically, organizational heads must:

- Establish management controls to meet the objectives of the MC program.
- Evaluate the management controls to ensure they are efficient and cost-effective.
- Prepare an annual statement, signed by the commander, which states whether or not there is reasonable assurance that the objectives of the MC program were met. These statements collectively form the support for the Secretary of the Air Force Annual Statement of Assurance to the Secretary of Defense.
- Report progress and compliance in response to SAF/FM direction on MC program implementation and the status of material weakness corrective actions.
- Prepare a management control plan, updated annually which maintains the inventory of assessable units.
- Designate a Program OPR to manage the overall MC program in the organization. The program OPR is in the financial management and comptroller organization. **EXCEPTION:** At locations without a financial management organization (for example, Secretariat or Air Staff) the organization head designates the office to perform program OPR duties.

1.5.2. Subordinate organization commanders are responsible for their management controls. Each commander must:

- Establish management controls to meet program objectives.
- Continuously monitor and improve the effectiveness of vital management controls.
- Furnish, upon request by higher headquarters, an internal annual statement giving reasonable assurance that they met the objectives of the MC program.
- Carry out MC program responsibilities as higher headquarters delegates.

1.5.3. Assessable unit managers must operate an effective management control system, evaluate the control system, and correct known weaknesses. Whether controls apply to administrative or operational functions or to program activities, the assessable unit manager must develop, implement, and maintain a management control system as an integral part of the systems used to operate the organization's programs and functions.

1.6. Field Operating Agency (FOA) Responsibilities.   Secretariat and Air Staff organizations who oversee field activities must include their FOAs in their MC programs. They may require separate FOA management control plans and program OPRs. The oversight principal may have the FOA commander provide a separate supporting statement of assurance. They should include documents that show the FOA's compliance with the MC program to support the principal's statement.

1.7. Program OPR Responsibilities.   Program OPRs form the MC Focal Point Network. Program OPRs at field level may perform tasks similar to their counterparts at Secretariat and Air Staff offices, and MAJCOM and DRU headquarters. The Program OPR:

- Prepares and maintains the Management Control Plan.
- Ensures that management control evaluations meet the required documentation standards.
- Instructs functional OPRs on the concept of management control evaluations and provides training on the MC program goals, policies, and procedures.
- Monitors functional OPR management control program activity, provides appropriate feedback, and reports program status as required within the primary element.
- Ensures that corrective actions are taken on material weaknesses.
- Drafts the primary reporting element's year-end supporting Statement of Assurance.
- Performs periodic quality control assessments of both the MC program activity and the reporting process.

1.8. Functional OPR Responsibility. Primary element functional OPRs manage the MC program within their function. A functional OPR:

- Ensures that management control program evaluations are performed completely, accurately, and adequately support the year-end statement.
- Reports MC program activity to the program OPR as required.
- Actively follows up on and corrects management control weaknesses identified by the MC program.
- Closely coordinates with the Program OPR on all aspects of the function's MC program and reports on improvements and weaknesses.

Chapter 2

IMPLEMENTATION

2.1. MC Process. The Air Force will implement the MC program at all levels. You should include as part of your basic management structure MC processes to improve effectiveness and accountability for results. Managers should prevent this process from becoming an isolated exercise. It should be consolidated with daily operating and management practices and utilize existing evaluative processes.

2.1.1. Implement the program as follows:

2.1.1.1. Segment the Organization. Divide each primary and subordinate reporting organization into entities capable of being evaluated by management control assessment procedures.

2.1.1.2. Develop a Management Control Plan. Maintain a written log (updated annually) of the organization's inventory of assessable units.

2.1.1.3. Conduct Management Control Evaluations. Conduct periodic evaluations of vital management controls.

2.1.1.4. Take Corrective Actions. Correct deficiencies in management control with corrective action plans.

2.1.1.5. Prepare Management Control Reports. Disclose material weaknesses in management control and monitor corrective action status through periodic reports.

2.2. Segmentation.

2.2.1. Activities should be segmented along organizational, functional, or programmatic lines into assessable units (AU) or an appropriate alternative methodology that provides equivalent results while identifying the vital management controls. Assessable units must encompass the entire organization. No aspect of Air Force worldwide operations is exempt from FMFIA requirements.

2.2.2. Air Force organizations may determine how far the segmentation should progress in order to achieve adequate oversight of management control responsibilities. Designate AUs of appropriate nature and size that a single manager may be held responsible for the assessment of management controls. To the extent practical, standardize AUs and associated vital management controls for the operation of common functions and activities throughout major commands.

2.2.3. A precise definition of an AU is impracticable so you cannot universally apply it. Base an ideal definition on characteristics rather than a set of rules. The following parameters apply. AUs must:

- Have clear limits or boundaries (organizational, functional, programmatic, or any combination of the three) and be identifiable to a specific responsible manager.
- Be small enough to allow observations that provide reasonable assurance that management controls are in place and adequate. The senior manager of the AU should actively participate in the review process.
- Be large enough that any detected material weakness might impair the mission.

2.3. Management Control Plan (MCP).

2.3.1. Primary reporting elements of the Air Force MC program identified in paragraph **1.5.1.** shall establish and maintain an inventory of their assessable units. The inventory will be maintained in a management control plan which should be updated annually.

2.3.2. Use the MCP to monitor progress and ensure that planned actions are taken. You may use any format or document to record MCP information as long as all elements of your organization are covered by an assessable unit.

2.4. Management Control Evaluation.

2.4.1. Management control evaluations are performed to determine whether management control techniques exist and are implemented to ensure that management control systems are working effectively. Management control evaluations are of two broad types:

2.4.1.1. A variety of alternative evaluation processes that provide adequate information regarding the effectiveness of control techniques, see paragraph **2.4.4.**

2.4.1.2. A specific detailed examination of management controls in a prescribed review format especially designed for that purpose, see paragraph **2.4.5.**

2.4.2. Assessable unit managers are responsible for continuously monitoring their vital management controls. When considering the scope and necessity for reviewing or testing management controls, managers should determine whether controls should be classified as "vital" or "non-vital". Vital management controls are those most important to the accomplishment of the mission or responsibilities of an assessable unit. All assessable units have both vital and non-vital management controls.

2.4.3. A common misconception is that MC responsibilities apply only to accounting or financial areas when, in fact, MC principles apply to all Air Force organizations. Managers must:

- Develop a written description of their controls so that the system can be communicated to all personnel.
- Evaluate their own controls so that excessive controls can be eliminated and weak controls can be improved.

2.4.4. In order to streamline the process of reviewing management control systems and to better involve program and administrative managers, DoDD 5010.38 encourages managers to rely on alternative management control reviews. Managers should not duplicate existing reviews that have included a specific assessment of vital management controls and are properly documented. Managers are encouraged to utilize the following sources of information for alternative management control reviews:

- Management and oversight reviews
- Computer security reviews
- AFAA, DoDIG and GAO audits, inspections, or investigations
- Financial system reviews
- Program evaluations
- Self inspection program
- Quality assessments
- Management knowledge gained from daily operations

2.4.5. If an existing assessment of controls is not available, then an appropriate management control review should be performed for the assessable unit. The Air Force has developed a generic review format that can be used for this purpose. It conforms with all program requirements of OMB and DoD, and is available from the SAF/FMPI program office. The generic Management Control Review (MCR) format is a simple and uniform way of conducting and documenting the accomplishment of a management control evaluation. It is structured to evaluate your controls in accordance with government-wide control standards. The review questions are based on the management control standards in OMB Circular A-123 and the testing requirement is in accordance with DoDI 5010.40.

2.5. Corrective Action Plan.

2.5.1. Prepare a corrective action plan when you discover material weaknesses in management controls. The correction of management control weaknesses is an integral part of management accountability. It makes no difference if the weakness is systemic or the weakness is merely a failure to follow established procedure. In both cases you must correct the weakness.

2.5.2. The recommendations for corrective action should correlate with the risk. In some cases you should strengthen the existing controls, and in others, you should include new controls. You should select the controls on the basis of cost effectiveness versus their ability to provide reasonable, but not absolute assurance against loss, errors, irregularities, or operational or mission impairment.

2.5.3. When determining the most desirable and alternative corrective actions, consider the way in which budget constraints or staff limitations affect the achievement of the control objectives. Managers must always consider the materiality of the weakness and the cost implications of actions to correct it.

2.5.4. A corrective action plan identifies specific actions and completion dates for correcting the weakness. The plan lists the tasks, called milestones, together with interim target dates for accomplishment of each task. You may revise milestones as required. The final milestone should be one of verifying that the corrective actions achieved the desired results. Correct the weakness as soon as possible or at least resolve the problem to the point where the weakness is no longer considered material for reporting purposes.

Chapter 3

REPORTING

3.1. General. The reports relating to the MC Program have been assigned Report Control Symbol DD-Comp (AR) 1618. The Undersecretary of Defense, Comptroller issues reporting guidelines and formats for all required reports. SAF/FM will issue appropriate call letters to primary reporting elements transmitting the prescribed guidance and current reporting formats.

3.2. Secretary's Statement of Assurance.

3.2.1. SAF/FM will prepare the Air Force Statement of Assurance according to instructions received annually from the Undersecretary of Defense, Comptroller. The statement will be based on a general assessment of the effectiveness of Air Force management controls. A cover memorandum will state the senior management assessment as to whether or not there is reasonable assurance that the Air Force's management controls are in place and operating effectively. It will take one of the following forms:

- Unqualified statement of assurance. ("I have reasonable assurance that...."). Provide a firm basis and appropriate justification for reasonable assurance.

- Qualified statement of assurance. ("I have reasonable assurance that....except for...."). Explain why the material weakness(s) precludes an unqualified statement.

- Negative statement of assurance. ("I do not have reasonable assurance that...."). Explain why the overarching effect of weaknesses negates reasonable assurance.

3.2.2. The body of the statement will provide a description of how the MC program was implemented during the year, disclose material weaknesses, describe the plans and schedules for correcting those weaknesses, and give the status of corrective actions on prior year weaknesses. If applicable, the statement will also contain a separate report on accounting systems conformance to the Comptroller General requirements.

3.3. Supporting Statements of Assurance.

3.3.1. Each primary reporting element (paragraph **1.5.1.**) must submit a supporting Statement of Assurance. The reporting element must state unequivocally whether it found material weaknesses. SAF/FM will issue an annual call letter to primary reporting elements by August 1. These supporting statements formulate the collective basis for the Secretary's Statement and will include all of the information in paragraph **3.2.** from the perspective of the primary element.

3.3.2. Secretariat offices address their statements to the Secretary of the Air Force. Air Staff offices, MAJCOMS, and DRUs address their statements to the Chief of Staff of the Air Force. All statements are due on October 10 and must be submitted to SAF/FMPI for processing and development of the Secretary's Statement.

3.3.3. Field Operating Agencies will address their statements, if required by provisions of paragraph **1.6.**, to the appropriate Secretariat or Air Staff oversight organization. Accordingly, oversight organizations' supporting statements of assurance will include responsibility for the evaluation and reporting on management controls of their designated FOAs.

3.3.4. Primary reporting elements must develop a building block process to support their annual statements. Some form of supporting letter of assurance from echelons at paragraph **1.5.2.** and paragraph **1.5.3.** is required. An additional recommended technique is the establishment of an office-wide or command-wide steering committee to review the adequacy of the year's MC program and to determine if material weaknesses exist.

3.3.5. Assurance letters at subordinate levels probably will disclose weaknesses of varying degrees of significance to the primary element as a whole. Collect and analyze those crosscutting weaknesses or items common to several units and other weaknesses of significance and consider whether they are appropriate for inclusion in the assurance letter to the next higher level official.

3.3.6. The period covered by the Statement of Assurance is the entire fiscal year. Practical considerations of preparing a year-end statement within a short lead time require an earlier cut off date for internal processing. Nevertheless, the declaration of reasonable assurance and disclosure of material weaknesses must cover the entire fiscal year. Reporting elements should adopt practicable summary review procedures to assure inclusion of all pertinent information in their annual statement.

3.4. Concept of Material Weakness.

3.4.1. Weaknesses in management controls must be reported if they are deemed to be material. Noncompliance with vital management controls or ineffective vital management controls should be reported by the responsible assessable unit manager to more senior management. Management controls may be considered vital at one organizational level but not at another or more senior level. Classification of management controls as vital or non-vital is a management judgment, though each assessable unit has management controls which should be classified as vital for that specific unit.

3.4.2. Subordinate managers must report deficiencies which are either material enough to warrant the attention of more senior management or require the participation of more senior management to resolve. The information is modified as it is reported forward. As the aggregation progresses, senior management may delete less significant control deficiencies and may add new items which are only conspicuous at more senior organizational levels. This process culminates when the primary Air Force elements denoted in paragraph **1.5.1.** report their most significant management control problems at the end of the fiscal year.

3.4.3. Management judges whether a weakness is material enough to warrant reporting to a level higher than that at which it was discovered.

Managers should consider reporting a weakness to the next higher level if the manager requires participation of management at a higher level to help resolve the problem or, although they could resolve the problem at the lower level, it is serious enough, in the judgment of the manager, to bring to higher level management's attention as a point of information.

3.4.4. Full disclosure is critical at each level because each level's input forms the basis for the next higher level's Statement of Assurance. Thus, what may be a material weakness at one level may not be material at the next higher level. At each level, however, material weaknesses share some common traits. Material weaknesses have the potential to:

3.4.4.1. Impair fulfillment of essential operations or mission.

3.4.4.2. Violate statutory or regulatory requirements.

3.4.4.3. Deprive the public of needed government services.

3.4.4.4. Endanger national security.

3.4.4.5. Cause adverse publicity or embarrassment.

3.4.4.6. Diminish credibility or reputation.

3.4.4.7. Lead to waste or loss of funds, property, or other resources.

3.4.4.8. Allow fraud or other criminal activity to go undetected.

3.4.4.9. Cause harm, even though minor individually, because it can be extensive in the aggregate.

3.4.4.10. Cause loss of control over a significant amount of the resources for which an organization is responsible (including resources other than money; i.e., personnel, equipment, etc.).

3.5. MC Reporting Categories.

3.5.1. Identify and report all MC program information according to standard DoD reporting categories to allow for the proper reporting to the USD Comptroller. This includes material weaknesses in the Statement of Assurance as well as assessable units and management control evaluations in the Management Control Plan. Each assessable unit should be assigned to only one category. The predominate function of the assessable unit should be used to determine the MC reporting category. See **Attachment 2** for the list of reporting categories.

3.6. Weakness Tracking System.

3.6.1. Maintain a follow-up information system that logs and tracks all planned corrective actions and identifies responsible personnel and target dates. The extent of this tracking should be commensurate with the severity of the weakness. SAF/FMPI maintains a summary of all weaknesses to meet DoD reporting requirements. Primary elements must maintain a subordinate system to track their own material weaknesses. Information in the tracking system must include the weakness number assigned by DoD, the MC reporting category, narrative description of the problem, corrective action milestone chart and the name of the responsible official or point of contract for corrective action progress.

3.6.2. You should track the status of corrective actions on all material weaknesses from their first reporting until their resolution. You may consider the weakness closed when you have verified that the corrective actions were effective.

3.6.3. Use the audit follow-up tracking system to track the planned corrective actions for material control weaknesses stemming from audit reports. Corrective action status reports in the FMFIA process must be in accord with corrective action status reports in the audit follow-up process.

3.7. Management Control Plan Report.

3.7.1. The management control plan report summarizes program activity for the current year. SAF/FM will include guidance for the current year in the annual call letter. Include the report as an attachment to your supporting Statement of Assurance.

3.7.2. Report management control plan data annually as of September 30. The number of assessable units in effect on the last day of the fiscal year must be reported. The summary schedule of MC evaluations should report the number of alternative review sources and management control reviews (SAF/FM MCR format) accomplished and planned in each MC reporting category.

Chapter 4

SPECIAL CONSIDERATIONS

4.1. Financial Management Systems. The FMFIA (PL 97-255, Section 4) requires government accounting and finance systems to conform to the principles, standards, and related criteria prescribed by the Comptroller General. Additionally, the FMFIA requires annual reporting on the results of conformance evaluations of accounting and finance systems.

4.1.1. SAF/FMPS prepares the part of the Secretary's Annual Statement of Assurance that deals with the conformance of Air Force accounting and finance systems.

4.1.2. The Defense Finance and Accounting Service-Denver Center (DFAS-DE) provides instructions to MAJCOM, DRU, and FOA accounting system monitors on behalf of SAF/FMPS. At the end of each fiscal year, DFAS-DE will submit a draft report on Section 4 FMFIA reviews to SAF/FMPS to use in preparing the Secretary's Annual Statement of Assurance. The draft report is due by October 10. As part of its functional responsibility for Air Force systems, DFAS-DE will:

- Develop and maintain an inventory of Air Force accounting and finance systems.
- Schedule conformance reviews of Air Force accounting and finance systems.
- Evaluate documentation of conformance reviews.
- Provide advice and recommendations on conditions found in Air Force systems that are potential non-conformances and material weaknesses.

4.2. Mixed Systems. Some assessable units operate support systems that provide information for processing by accounting systems. These systems that interface with an accounting system are known as "mixed systems".

4.2.1. In order to support the evaluations required by Section 4, managers of assessable units that operate these mixed systems must evaluate the management controls of such systems and provide certification on the adequacy of the management controls, when directed by the accounting system manager.

4.2.2. The short form MCR format may be used to perform the mixed system review unless other instructions are provided by the Section 4 accounting system manager. The mixed system manager must maintain documentation of the review, and ensure that performance of the MCR is reported to the assessable unit functional manager for inclusion in the organization's MCP.

4.3. Potential Material Weaknesses.

4.3.1. A wide variety of objective sources are available to assist you in the identification of management control weaknesses. These sources include but are not limited to: audits, inspections, investigations, management assessments, creditable information of non-governmental origin, staff meetings, and management control evaluations.

4.3.2. SAF/FM periodically will disseminate significant audit reports, or drafts of them, with potential material weaknesses to affected primary elements. SAF/FM will request that the primary element review the audit and determine if a material weakness exists and should be reported. Primary elements should consider all open audit findings concerning management controls, agreed to by the manager, as potential material weaknesses.

4.3.3. Office of Secretary of Defense Functional Elements may identify management control weaknesses in their functional areas that they feel should be reported and corrected by the Air Force. Primary elements will give strong consideration to these issues and work toward a consensus with OSD functional offices.

4.4. Documentation Requirements.

4.4.1. All levels of Air Force management must maintain adequate documentation of their MC program activity. This is extremely important given the latitude granted to primary reporting elements to rely on existing organizationally required reviews as the primary tools for required assessments. Such assessments serve as the basis for supporting statements of assurance. Completion of assessments and the degree to which they influence the determination of reasonable assurance must be properly documented.

4.4.2. Maintain records for the MC program according to AFMAN 37-139, *Records Disposition Standards*. If sensitive information is generated by the reviews and reports required under this instruction, the functional OPR must consider whether the reviews or reports should be marked "For Official Use Only", and protected from public disclosure (see paragraph **4.11.**).

4.5. Automatic Data Processing (ADP). Automation introduces new or different elements of risk into systems. Assuring that proper controls, manual or automated, are in place in automated systems as well as management of the ADP function is an important aspect of the MC program. Both application controls (over the operation of each application system) and general controls (over the management of the ADP function) should be in place and reviewed.

4.5.1. Application controls are unique to each application system. Proper controls assure that the application system does exactly what it is intended to do, and nothing more. Establish controls that are commensurate with the risk or magnitude of loss or harm that could result from improper operation of the system.

4.5.2. General controls apply to the overall management of the ADP function. They have a direct impact on the resources being expended for automation and should assure effective and efficient use of those resources as well as the quality of service to ADP users. General controls include:

- Organizational controls for the ADP unit.
- Systems design, development and modification controls.
- Installation management controls.
- Installation security controls.
- System hardware and software controls.

4.5.3. HQ USAF/SC is the functional OPR for ADP Controls. The DOD ADP Internal Control Guideline, DOD 7740. 1 -G, has been adopted as an additional tool for evaluating management controls within automated systems.

4.6. Host Tenant Relationships. Responsibilities of the MC program follow the chain of command.

4.6.1. Tenant units on other MAJCOM bases must perform management control evaluations at the direction of the tenant unit's parent command.

4.6.2. The Program OPR will make a recommendation to the commander where functions overlap or where functional OPRs disagree over who has responsibility for a certain action.

4.7. Quality Control.

4.7.1. Establish quality control procedures that will adequately monitor the implementation of the management control culture. This includes ensuring that MC systems achieve their objectives, are adequately documented, identify and report material weaknesses, and that corrective actions are tested to ensure their effectiveness. Functional and program OPRs at all levels are responsible for quality control of the MC evaluation and reporting process.

4.8. Training.

4.8.1. Managers are responsible for the continuous monitoring and improving of vital management controls. They should be knowledgeable and diligent in using the range of tools at their disposal to meet the requirements of this Instruction. Each primary reporting element must ensure that managers are provided appropriate training to enable them to fulfill their obligations.

4.9. Air Force Audit Agency (AFAA) Involvement.

4.9.1. AFAA personnel may provide advice to reporting elements and subordinate organizations and bases in establishing management controls for their functions.

4.9.2. AFAA reviews the Air Force's implementation of the FMFIA. In the course of the review and audit of the MC program, the AFAA may selectively evaluate completed management control evaluation and supporting documentation. The AFAA is included as an information addressee during the Secretariat and Air Staff coordination phase of the Annual Statement. The Auditor General provides the Secretary of the Air Force a year-end opinion letter on the evaluation of management's preparedness for executing the Annual Statement of Assurance.

4.10. Air Force Inspector General (IG) Involvement.

4.10.1. The Air Force Inspector General operates an extensive inspection system throughout the worldwide activities of the Air Force. Some of the objectives of the inspection system relate to the MC program. The offices of the Inspector General may, on their own initiative or at the request of the commander, perform special management control reviews, studies, or other analyses, as either separate reviews or in conjunction with other efforts. Primary elements should work closely with IG officials in the implementation of the MC program.

4.10.2. Primary elements should review Air Force IG reports and inspections as a source of potential material weaknesses.

4.10.3. Because of the special relationship between Secretary of the Air Force and SAF/IG, the Inspector General is a required signatory in the coordination process of the Secretary's Annual Statement of Assurance. Likewise, MAJCOMs are required to include their Inspector General in the coordination process of the Commander's supporting Statement of Assurance.

4.11. Freedom of Information Act (FOIA) Implications.

4.11.1. The Department of the Air Force Annual Statement of Assurance may be made available, upon request, to the general public, except in the case of any Statement containing certain restricted

information. The Federal Managers' Financial Integrity Act specifies that information in the following categories be deleted from the Statement before it is made available to the public:

4.11.1.1. Information specifically prohibited from disclosure by any provision of law.

4.11.1.2. Information specifically required by Executive Order to be kept secret in the interest of national defense or the conduct of foreign affairs.

4.11.1.3. All other requests for information about the MC program, management control evaluation results, supporting Statements of Assurance or other information developed through the MC process are to be handled in accordance with procedures for release of information established by AFI 37-131, *Freedom of Information Act Program.*

ROBERT F. HALE
Assistant Secretary of the Air Force for
 Financial Management and Comptroller

Attachment 1

GLOSSARY OF REFERENCES, ABBREVIATIONS, ACRONYMS, AND TERMS

References

NOTE. Program OPRs at Secretariat, Air Staff, major command (MAJCOM), field operating agency (FOA), and direct reporting unit (DRU) levels should maintain current copies of the documents listed below. (SAF/FMPI can provide copies of these documents on request).

PL 97-255, *Federal Managers Financial Integrity Act*

DoD Directive 5010.38, *Management Control Program*, August 26, 1996

DoDI 5010.40, *Management Control Program Procedures*, August 28, 1996

DoD 7740. 1 -G, *Department of Defense ADP Internal Control Guideline*, July 1988

OMB Circular A-123, *Management Accountability and Control*, June 21,1995

OMB Circular A-127, *Financial Management Systems*, July 23, 1993

Abbreviations and Acronyms

ADP—Automatic Data Processing

AFAA—Air Force Audit Agency

AMCR—Alternative Management Control Review

DFAS-DE Center—Defense Finance and Accounting Service, Denver

DoD—Department of Defense

DRU—Direct Reporting Unit

FMFIA—Federal Managers' Financial Integrity Act

FOA—Field Operating Agency

FOIA—Freedom of Information Act

GAO—General Accounting Office

MC—Management Control

MCE—Management Control Evaluation

MAJCOM—Major Command

MCP—Management Control Plan

OMB—Office of Management and Budget

OPR—Office of Primary Responsibility

Terms

Assessable Unit—The basic segment for which management controls are evaluated. An assessable unit may be an organization, program, function, system or any other applicable division of Air Force activities

capable of being evaluated by management control assessment procedures. An assessable unit shall be of an appropriate size to assure that a reasonable span of management control will allow for adequate control analysis.

Management Control—A system of guidance, instructions, regulations, procedures, rules or other organization instructions intended to determine the methods to be employed to carry out mission or operational actions or objectives, and ensure that programs achieve intended results. The term "management control" applies to all Air Force activities.

Management Control Evaluation—A review performed of an assessable unit to determine whether management control techniques exist and are effectively implemented to accomplish administrative, operational, and mission objectives.

Management Control Program—The formal effort of an organization to ensure that MC systems are working effectively through assignment of responsibilities at the policy level, issuance and implementation of guidance, conduct of management control evaluations, and reporting to senior management.

Management Control Plan—A written plan (updated annually) that details the inventory of assessable units throughout the organization along with the progress toward accomplishment of scheduled management control evaluations. It need not be lengthy and any format may be used so long as it conveys, with a reasonable certainty, the completion of required program activity.

Material Weakness—A determination by management that a condition exists (of sufficient importance to be reported to the next higher level of command) in which the designated control procedures or the degree of operational compliance therewith does not provide reasonable assurance that the objectives of the MC program are being accomplished.

Reasonable Assurance—A judgment, based upon an evaluation of all available information, that the organization's systems of management control are operating in a manner that achieves the objectives of the FMFIA.

Vital Management Controls—Those management controls most important to the accomplishment of the mission, and for which noncompliance would require disclosure to more senior management.

Attachment 2

MC REPORTING CATEGORIES

Research, Development, Test, and Evaluation. Covers the basic project definition, approval, and transition from basic research through development, test, and evaluation as well as all DoD contractor operations involved in accomplishing the project work. Excludes the support functions covered in separate reporting categories such as Procurement and Contract Administration.

Major Systems Acquisition. Covers items designated as major systems and that are subject to the procedures of the Defense Acquisition Board (DAB), the Military Services acquisition review councils, or the Selected Acquisition Reporting System. DoD Directive 5000.1 may be helpful when evaluating a weakness for inclusion in this category.

Procurement. Covers the decisions to purchase items and services together with certain actions to award and amend contracts, e.g., contractual provisions, type of contract, invitation to bid, independent government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting.

Contract Administration. Covers the fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the government.

Force Readiness. Includes the operational readiness capability of combat and combat support (both Active and Reserve) forces, based on analyses of the use of resources to attain required combat capability or readiness levels.

Manufacturing, Maintenance, and Repair. Covers the management and operation of in-house and contractor-operated facilities performing maintenance and repair of, and/or installation of modifications to, materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

Supply Operations. Encompasses the supply operations at the wholesale (depot and inventory control point) level from the initial determination of material requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materials and supplies). Also covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment, and supplies).

Property Management. Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction). Includes all phases of property life-cycle management from determination of need through disposition. Also covers disposal actions for all materiel, equipment, and supplies, including the Defense Re-utilization and Marketing System.

Communications or Intelligence or Security. Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DoD programs for protection of classified information.

Information Technology. Covers the design, development, testing, approval, deployment, use and security of electronic data processing systems, computers, and other technologies for processing management information. Includes requirements justification for equipment and software.

Personnel or Organization Management. Covers authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

Comptroller and or Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76.

Support Services. Includes all support services functions financed from appropriated funds not covered by the other reporting categories, such as health care, veterinary care, and legal and public affairs services. All non-appropriated fund activities are also covered by this category.

Security Assistance. Covers management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

Other (Primarily Transportation). All functional responsibilities not contained in the previously noted categories, including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.